

1 Q. What does AADS's tariff apply to?

2 A. Well, I'm not an AADS employee. I neither know
3 the terms and conditions of AADS' tariff nor
4 ICI's, I don't know what ICI's tariff looks
5 like either.

6 Q. Are you familiar with the contract between AADS
7 and Ameritech for the provision of frame relay
8 switching?

9 A. Never have seen it.

10 Q. Could I direct your attention to the attachment
11 to the Ameritech data requests that is referred
12 to as ICI Data Request No. 7C.

13 A. Okay.

14 Q. Do you have it with you?

15 A. This?

16 Q. Okay. It's called the Services Agreement.

17 A. Okay.

18 Q. Now, in Section 2 of that Services Agreement,
19 it states that, "Charges for tariffed services
20 will be as set at the rate specified in the
21 tariff. Charges for all other services will be
22 determined by the parties," and it goes on from
23 there.

24 Is this the reference that -- or is this a
25 reference to what you referred to earlier as

1 the basis by which Ameritech buys frame relay
2 switching from AADS?

3 A. I have to -- let me read this because I haven't
4 ever seen before it, so I don't know.

5 MR. FRUEHWALD: I don't know that
6 the witness, who's never seen this contract
7 before, can tell you that's what you're asking
8 for.

9 MR. CANIS: Has Ameritech
10 produced any other witness that is competent to
11 discuss the responses Ameritech has made to
12 ICI's data requests?

13 MR. FRUEHWALD: I don't know. If
14 Mr. Wardin is not, then I don't know if we
15 have. Apparently not.

16 MR. CANIS: But Mr. Wardin is
17 talking about AADS and its relationship with
18 Ameritech.

19 MR. FRUEHWALD: He is in terms of
20 your questioning, but that's not his direct
21 testimony. His direct testimony was as to the
22 cost figures. That's what he was presented
23 for. This is beyond the scope of his direct in
24 the sense to which you're talking about AADS
25 details.

1 MR. CANIS: I'm sorry, I didn't
2 mean to get involved in a discussion between
3 counsel. If there is no -- I'm not sure if
4 there's -- an objection is on the table or not,
5 but could I ask for a response to my question?

6 A. Sure. I mean, given that I don't necessarily
7 know if there was anything that this was an
8 addendum to when we have the services
9 agreement -- I don't know if these charges for
10 tariffed services are services that Ameritech
11 Indiana is providing to AADS or vice versa, but
12 it would be out of some tariff that would be
13 either with the FCC or the special access -- or
14 the access tariff in Indiana.

15 Q. The services agreement is captioned as a
16 response to ICI Data Request No. 7C.

17 A. Okay.

18 Q. Let me just read what that request was.

19 "Describe in detail any arrangements in place
20 between Ameritech and any affiliate or
21 subsidiary providing frame relay service for
22 the following, C, reciprocal compensation
23 arrangements for the transport and termination
24 of frame relay traffic."

25 A. Uh-huh.

1 Q. The services agreement that you're looking at,
2 could you describe that, please, how many pages
3 it is?

4 A. Looks like about three pages.

5 Q. Are there any rates listed in this contract?

6 A. Not that I can see.

7 Q. Now, you have testified previously that
8 Ameritech purchases frame relay switching
9 functionality from AADS pursuant to ICB
10 contracts, is that the case?

11 A. I stated previously that Ameritech Indiana
12 purchases frame relay switching from AADS
13 pursuant to -- I'm not exactly sure of the
14 nature of that, it'd either be from the tariff
15 or any applicable standards and regulatory
16 requirements relating to that transaction, so
17 if it wasn't from the tariff, it would have
18 been from whatever else was afforded to them
19 through the legal or regulatory constraints
20 that are allowed.

21 Q. Okay. You did mention ICB contracts earlier,
22 did you not?

23 A. Yes, I did, but I don't know that to be the
24 fact.

25 Q. So in what context, then, did you mention ICB

1 contracts?

2 A. I was assuming that the charges that AADS
3 assesses Ameritech Indiana were out of like a
4 ICB contract, so it's either out of AADS's
5 tariff or probably some type of contract that
6 they have mutually agreed to.

7 Q. When you computed your charges for NNIs that
8 are included in your testimony, did you include
9 cost inputs from the price that Ameritech pays
10 to AADS?

11 A. Yes, I did.

12 Q. Where did those come from?

13 A. Those came from the product manager who was
14 developing the service and said these are the
15 costs that AADS -- or these are the charges
16 AADS will -- is assessing Ameritech Indiana for
17 that frame relay switching functionality.

18 Q. Did those come out of a tariff?

19 A. I don't know if those came out of tariff or
20 not. I mean, I received that as input from the
21 product manager in developing the costs for it.

22 Q. Could you identify the product manager, please?

23 A. Mr. Tim Whiting. See, that was a -- basically
24 a contract that came to us from AADS, said
25 these are what they're going to -- what they're

1 going to charge us for those, for the frame
2 relay switching functionality, then it was
3 passed on to the cost group.

4 Q. So you just said it was a contract.

5 A. Well, I don't -- see, I don't -- just like
6 if -- I'll get it down to kind of like layman's
7 terms because like when we have contracts or
8 tariff, if we're buying a piece of equipment, I
9 never see the contract for what the discount
10 rate is or the price. Engineering provides me
11 and says a multiplexor costs \$27,000. I don't
12 go and say I want to see the contract and the
13 discount rate for that. I trust the inputs
14 that people are giving me as being factual. We
15 have, you know, checks and balances in place,
16 but if somebody tells me that a -- you know,
17 something costs a certain dollar amount, I have
18 no reason not to assume it to be correct.

19 Q. So basically the source of the data that you
20 provided that you used to compute your proposed
21 rates is a black box, you don't know where it
22 comes from, how it was computed, whether it
23 comes out of a tariff or a contract or on what
24 basis those numbers were derived; is that the
25 case?

1 A. No, I would not characterize it as that. I
2 mean, it's very similar to any other input from
3 engineering that we receive or product
4 management. It's a factual number, and I won't
5 classify it as a black box. Those are actual
6 revenues that Ameritech Indiana is paying AADS
7 for the service.

8 Q. But you've never seen the source of those
9 numbers, you don't know if it's a tariff?

10 A. I've never seen a contract for a 5E switch,
11 I've never seen the discount tables in those
12 contracts, but yet I'm able to do costs on
13 those also.

14 Q. Do you know whether the inputs that you have
15 received from Mr. Whiting reflect TELRIC
16 pricing methodology?

17 A. I would say that yes, they do, since they're a
18 direct expense to Ameritech Indiana, they would
19 reflect TELRIC pricing methodology.

20 Q. So you're saying that any price that Ameritech
21 pays its own wholly-owned subsidiary for
22 services that it purchases from its subsidiary
23 are by definition TELRIC prices?

24 A. It's a cost input to Ameritech Indiana. It's a
25 cash flow item that is specific to this

1 functionality and therefore in this case it
2 would be a direct input and properly classified
3 as TELRIC cost input.

4 Q. Now, in terms of -- do you have any knowledge
5 of the basis by which AADS computed the price
6 that it charges Ameritech for the frame relay
7 switching that it provides?

8 A. AADS is a separate subsidiary and they don't
9 talk to us about the costs. I do know that
10 frame relay is a highly competitive market in
11 which I think Mr. Whiting stated that we only
12 have 20 percent, so to the extent that they are
13 not -- they charge us too much for that
14 functionality, they basically also have
15 increased cost input into offering enhanced
16 frame relay service, so I think in a
17 competitive marketplace, this isn't a monopoly
18 service that someone can extract unreasonable
19 margin out of, so if we're pricing too high,
20 they can go anywhere they want. AT&T doesn't
21 buy one frame relay service from Ameritech
22 Indiana and yet has over 60 percent of the
23 market.

24 Q. What market is that?

25 A. Frame relay market, both local and interLATA

1 and intraLATA.

2 Q. So AT&T has 60 percent of the local frame relay
3 market in Indiana?

4 A. They have 60 percent of the total market. Now,
5 I can't tell you what's local, what's
6 interstate, what's intrastate.

7 Q. So you don't know the respective breakdown of
8 market share for those market segments?

9 A. No, but, once again, I find it interesting that
10 AT&T does not purchase any frame relay
11 functionality from Ameritech Indiana and yet
12 commands and is the price leader for the
13 service and commands that market share.

14 Q. Do you know if AT&T has negotiated with AADS?

15 A. I don't know if they've negotiated with AADS.
16 I don't believe they have purchased any service
17 from AADS or Ameritech Indiana, but I don't
18 know for sure that.

19 Q. Do you have any reason to believe that AT&T
20 understands that AADS is a wholly-owned
21 subsidiary that owns all of Ameritech's frame
22 relay switches?

23 A. Well, I would assume that AT&T knows who owns
24 that -- that AADS is owned by Ameritech.

25 Q. Is that public information? Is that something

1 that Ameritech announces publicly?

2 A. I think so because the first A stands for
3 Ameritech, so it says Ameritech Advanced Data
4 Services. I don't think that's really trying
5 to conceal anything.

6 Q. Do you know when ICI first asked Ameritech for
7 interconnection for services including frame
8 relay?

9 A. Do I know when?

10 Q. Yeah.

11 A. No.

12 Q. Would you accept subject to check that it was
13 months ago, at least six months ago?

14 A. If you say it to be true, I have no reason
15 to --

16 Q. Do you know that -- do you know when Ameritech
17 first admitted to ICI its relationship with
18 AADS?

19 MR. FRUEHWALD: I'm going to
20 object to that, your Honor. I mean, in terms
21 of characterization of omission, it's the first
22 time it was asked. This is an argumentative
23 question.

24 JUDGE MILLER: Would you rephrase
25 the question or withdraw it.

1 MR. CANIS: I'll withdraw that
2 question. Thank you.

3 Q. In terms of the prices that AADS charges to
4 Ameritech, do those prices reflect
5 forward-looking costing methodologies?

6 A. AADS is a separate subsidiary. We do not do
7 their costing or pricing for them. The rate --
8 or the charges that are assessed to Ameritech
9 Indiana are direct expense to Ameritech Indiana
10 in provisioning frame relay service.

11 Q. Is AADS rate regulated?

12 A. I am not sure what -- if they're rate
13 regulated. They are regulated like any other
14 frame relay provider in Indiana.

15 Q. Has this Commission ever reviewed the pricing
16 practices of AADS to determine whether it met
17 with the TELRIC pricing standards?

18 A. AADS comports with the pricing standards that
19 are applicable to all frame relay providers in
20 the state of Indiana.

21 Q. Are those TELRIC pricing standards?

22 A. I don't believe they are.

23 Q. Yet the prices that AADS charges Ameritech for
24 frame relay switching are a direct cost input
25 into the rate that Ameritech charges ICI for

1 connections?

2 A. That's correct. However, the software that we
3 buy for a 5E switch from Lucent Technology is
4 not TELRIC based either. That's a direct cost
5 input into our TELRICs for those services.

6 Q. If a LEC wanted to circumvent the TELRIC
7 pricing obligations of the Communications Act,
8 could it do so by spinning off a separate
9 subsidiary --

10 MR. FRUEHWALD: Are you finished
11 with your question?

12 Q. -- to hold substantial amounts of equipment?

13 MR. FRUEHWALD: Your Honor, I'm
14 going to object to that. That has nothing to
15 do with this situation and it's a purely
16 hypothetical question. It has no relationship
17 to any of the facts that are present here.
18 They're -- there's been no spin-off and
19 there's -- they've always owned these switches
20 and this is just pure hyperbole.

21 JUDGE MILLER: The objection is
22 sustained. If you wish to pursue it, you'll
23 have to find another way.

24 Q. You mentioned that AADS provides frame relay
25 service in a competitive market. Is your

1 position that competitive forces are adequate
2 to ensure that the rates that AADS charges
3 Ameritech for its frame relay switching
4 functionality are reasonable?

5 MR. FRUEHWALD: Your Honor,
6 that's not an issue in this case as to whether
7 reasonable rates -- the competitive forces
8 cause reasonable rates. This witness has
9 talked about what the expenses that are paid by
10 Ameritech Indiana are and that's the issue and
11 that's what his testimony is about.

12 MR. CANIS: May I respond, your
13 Honor?

14 JUDGE MILLER: You may.

15 MR. CANIS: Both Mr. Wardin and
16 Mr. Whiting went to some length to talk about
17 the competitive nature of the frame relay
18 service market and Mr. Wardin specifically
19 raised that issue in response to a question
20 about the costs that Ameritech pays for the
21 service it obtains from AADS.

22 JUDGE MILLER: I'm afraid I need
23 to ask you to repeat the question before I can
24 rule on the objection.

25 MR. CANIS: Are competitive

1 market forces adequate to ensure that the
2 prices that AADS charges Ameritech for the
3 frame relay switching functionality that
4 Ameritech buys from AADS are reasonable rates?

5 JUDGE MILLER: The objection is
6 sustained.

7 Q. Do you know, Mr. Wardin, has AADS ever
8 attempted to obtain interconnection pursuant to
9 Section 251, 252 from Ameritech?

10 A. I'm not sure why they would, but under what
11 reasons? I guess I don't know of any reason
12 that they have.

13 Q. Isn't it true that AADS currently purchases
14 frame relay service from Ameritech out of
15 Ameritech's tariffs?

16 A. AADS purchases frame relay service from
17 Ameritech Indiana from Ameritech Indiana's
18 tariffs, yes, that's correct.

19 Q. Could AADS achieve cheaper prices for the
20 services it purchases from Ameritech if it
21 interconnected with Ameritech as opposed to
22 buying services out of its end user tariff?

23 A. You're asking a hypothetical that I don't know.
24 We'd have to look at the -- at the cost versus
25 the tariffed rates. I don't know that to be a

1 fact in all cases.

2 Q. I'd like to direct your attention to Exhibit 1
3 of your testimony.

4 A. Okay. I assume the nonpublic version?

5 Q. This is the -- this is from the nonpublic
6 version. I will try to avoid discussing any
7 specific numbers here so we can keep this on
8 the public record.

9 A. Okay.

10 Q. Under estimated recurring costs, we have a
11 number of different cost factors, depreciation,
12 cost of money, income tax, maintenance, other
13 ad valorem tax. Of that, the other recurring
14 expense is significantly larger than the other
15 elements. Can you tell us what that other
16 recurring expense refers to?

17 A. Yes, I can. The other recurring expense line
18 item, that is the -- that is the expense
19 Ameritech Indiana incurs to provide frame relay
20 services -- or frame relay switching from AADS,
21 so that line item is the direct expense from
22 AADS for the frame switching functionality.

23 Q. So it's what Ameritech pays its subsidiary for
24 frame relay switching?

25 A. Well, AADS is not a subsidiary of Ameritech

1 Illinois -- or Indiana, so it's what Ameritech
2 Indiana pays AADS for that functionality.

3 Q. If you look at the total costs associated, the
4 total recurring costs associated with the hub
5 NNI connection on that page 1.

6 A. Okay.

7 Q. Roughly what percentage, and I'm not asking for
8 a precise number, but roughly what percentage
9 of the total cost associated with that service
10 is represented by the other recurring expense?

11 A. That would represent, roughly speaking, I don't
12 know, 90 to 93 percent. Without doing the math
13 in my head, over 90 percent.

14 Q. May I direct your attention to page 5 of
15 Exhibit 1.

16 MR. FRUEHWALD: Let me give the
17 Exhibit 5 to the judge because that's got the
18 corrections on it that his version doesn't
19 have.

20 JUDGE MILLER: Thank you.

21 Q. Are any of the nonrecurring expenses listed on
22 this page, do any of these reflect the prices
23 that Ameritech pays to AADS?

24 A. The nonrecurring expenses or the recurring
25 expenses?

1 Q. I'm sorry, I meant to say the recurring
2 expenses.

3 A. Okay. The monthly expense shown in column A is
4 the -- those are the charges AADS assesses
5 Ameritech Indiana for that particular
6 functionality.

7 Q. And if we look at the pricing for the 768
8 kilobyte for DLCI, again not asking for any
9 precise amount, but roughly what percentage of
10 the total recurring rate for that service is
11 constituted by the amount that Ameritech pays
12 to AADS?

13 A. Okay. The proposed rate is approximately in
14 the 70 percent range, plus or minus a few
15 percent.

16 JUDGE MILLER: Just to clarify,
17 the question is roughly estimate what
18 percentage is column A, that last figure at the
19 bottom, of --

20 THE WITNESS: Column E.

21 JUDGE MILLER: Column B?

22 THE WITNESS: E as in Edward.

23 JUDGE MILLER: That's what I
24 thought, thank you.

25 MR. CANIS: I have no further

1 questions at this time.

2 JUDGE MILLER: Any redirect?

3 MR. FRUEHWALD: Nothing, your
4 Honor.

5 JUDGE MILLER: Okay. We'll
6 return then to the rebuttal testimony which has
7 been filed. I think we should go first to
8 Dr. Viren, if that's appropriate.

9 MICHAEL VIREN,
10 a witness recalled on behalf of the Petitioner,
11 having been previously duly sworn in by the
12 Arbitrator, resumed the stand and testified as
13 follows:

14 MR. CANIS: Your Honor, Dr. Viren
15 is still then under oath?

16 JUDGE MILLER: Yes, that's
17 correct.

18 DIRECT EXAMINATION,

19 QUESTIONS BY MR. JONATHAN E. CANIS:

20 Q. Let me ask -- I'm sorry, I forgot, I think I
21 already asked Dr. Viren if he had any changes
22 to this testimony and I believe there were
23 none; is that correct?

24 A. That's correct.

25 MR. CANIS: In that case,

ATTACHMENT 5

**SUPPLEMENTAL VERIFIED STATEMENT OF
TIMOTHY WHITING AND
VERIFIED STATEMENT OF
W. KARL WARDIN
IN ILLINOIS ARBITRATION PROCEEDING**

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

In the Matter of)
)
Petition by Intermedia Communications, Inc.) DOCKET NO. 97 AB-002
for Arbitration with Ameritech Illinois)
pursuant to the Telecommunications Act of 1996)

VERIFIED STATEMENT OF W. KARL WARDIN
ON BEHALF OF AMERITECH ILLINOIS

Q. Would you please state your name, address and nature of employment?

A. My name is W. Karl Wardin. I am employed by Ameritech Services, Incorporated as Director - Regulatory. My business address is 2000 W. Ameritech Center Drive, Location 4G54, Hoffman Estates, IL 60196.

Q. Please briefly describe your educational background and work experience with Ameritech.

A. In 1981, I received my Bachelor of Arts Degree in Accounting from the College of St. Thomas, St. Paul, Minnesota. I received an MBA Degree from Marquette University in 1982.

I have been employed by Wisconsin Bell Telephone Company and Ameritech since 1983. At Wisconsin Bell I held various capital recovery and service cost positions. In 1987, I was

transferred to Ameritech Services Incorporated as Manager - Cost Operations with responsibilities for cost study development of central office-based products and services. In 1994 I was promoted to Director - Regulatory in Ameritech's Public Policy Organization.

Q. Please describe your present responsibilities.

A. Currently, I am responsible for handling all regulatory matters for Ameritech's Long Distance Services (ALDIS) Business Unit which provides access services to its interexchange carrier customers. I am also responsible for overseeing the development of all access filings for ALDIS on behalf of the Ameritech Operating Companies ("Ameritech"), including Ameritech Illinois, with the FCC and the five State Commissions in Ameritech's serving territory.

Purpose

Q. What is the purpose of your testimony?

A. Ameritech Illinois maintains that section 251(c)(2) of the 1996 Telecommunications Act (the "Act") does not require incumbent local exchange carriers to provide interconnection for frame relay. My testimony assumes for the sake of discussion, and contrary to Ameritech Illinois' position, that section 251(c)(2) does require frame relay interconnection, and that the pricing standards of the Act therefore govern the rates for frame relay interconnection. Based on that assumption, the principal purpose of my testimony is to explain how Ameritech Illinois determined forward-looking economic costs and, thereby, rates for providing frame relay interconnection in accordance with the pricing standards of the Act.

Pricing Framework

Q. What is the legal framework for pricing interconnection under the Act?

A. The Act requires that ILECs price interconnection that is required by section 251(c)(2) of the Act "based on the cost" of providing the interconnection. 47 U.S.C. § 252(d)(1). The Federal Communications Commission ("FCC"), in regulations that are now stayed, ruled that the appropriate

cost on which prices are to be based is the forward-looking economic cost, that is, the sum of the total element long-run incremental cost ("TELRIC") and a reasonable allocation of forward-looking joint and common costs. 47 C.F.R. § 51.505(a).^{1/}

Because the FCC's pricing rules are currently stayed and thus may not ultimately govern this proceeding, the Commission must also look to the Act itself when determining appropriate pricing standards. Therefore, pursuant to Sections 252(c)(2) and 252(d)(1) of the Act, rates for interconnection should be set "based on the cost" incurred in providing them.

We believe that, as the Eighth Circuit's preliminary decision indicates, our full costs of providing network elements or interconnection is significantly greater than the costs that the FCC permitted to be recovered. Nevertheless, the cost studies submitted with my testimony are consistent with the TELRIC-based methodology set forth by the FCC in its First Report and Order, but they would not

^{1/} The FCC's use of the term "common costs" includes both joint (also called shared) and common costs. First Report and Order, ¶ 676. Similarly, the FCC uses the term "unbundled network elements" to comprise network interconnection as well. 47 C.F.R. § 51.501(b). Therefore, I will sometimes use the word "element" when I am referring to interconnection, even though, as I understand it, this arbitration has to do only with interconnection, and not with access to unbundled network elements.

recover the full costs that the Company incurs in providing interconnection, including historical, embedded, and residual costs. Nor, since they fail to cover all costs, would they permit Ameritech Illinois the reasonable economic profit above cost authorized by the Act.

Q. What is TELRIC?

A. TELRIC is the forward-looking additional cost incurred by a telecommunications carrier in the provision of a network element or an interconnection. It comprises operating expenses, depreciation cost, and the appropriate risk-adjusted costs of capital. Operating expenses include such costs as maintenance and recordkeeping and reflect the use of such resources as labor, plant, and equipment.

Depreciation cost is based on a depreciation rate that reflects the true changes in economic value of an asset. The cost of capital reflects the risks incurred by investors. TELRIC is equivalent to the costs that a firm would save if it entirely stopped providing the element or interconnection. TELRIC does not include shared (or joint) or common costs, which would not be avoided if the firm entirely stopped providing the element or interconnection. TELRIC is forecast over a planning horizon sufficiently long as to eliminate sunk inputs or costs, and it is calculated as if the element or interconnection is being provided for